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**FEDERAL
DIVERSIPLEX
LIMITED**

Annual Report

For the 52 Weeks Ended

April 1, 1972



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BOARD OF DIRECTORS

* Member of the Audit Committee

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Clarkson, Gordon & Co.,
Chartered Accountants - - - - - Toronto

Fasken & Calvin - - - - - Toronto

Canadian Imperial Bank of Commerce - Toronto and Bradford

National Trust Company, Limited - - - Toronto and Montreal

[illegible]

931 Yonge Street - - - - - Toronto

The Annual Meeting of Shareholders will be held in The Board Room of the Head Office of National Trust Company, Limited, 21 King Street East, Toronto, at 10:30 o'clock in the morning on Thursday, September 14, 1972.

FEDERAL DIVERSIPLEX LIMITED

DIRECTORS' REPORT TO THE SHAREHOLDERS

Operations of Federal Diversiplex Limited for the year ended April 1, 1972 resulted in a loss of \$141,947 after recording a gain of \$110,605 on the sale of fixed assets. This compares with an operating loss of \$332,354 for the preceding year.

The past twelve months have represented a period of significant change in the direction of your Company's affairs. By regular reporting and press releases, we have endeavoured to keep shareholders abreast of new developments.

Diversification through the purchase, in October, 1971, of Valley View Dairies Limited represented a significant step toward revitalization of the Company. Although dairy figures were consolidated only from November 1st, this acquisition was a factor in raising Federal's sales for the year to a total of \$6,608,100, the highest level recorded in the Company's history. Valley View Dairies holds an established position in the servicing of a substantial segment of the major Metropolitan Toronto and adjacent milk marketing area in which it is licensed to deal. Profits from this new division will continue to assist Federal's overall recovery.

The decision to concentrate sales of Bradford-produced snack foods and fresh produce in market areas closer to their source led to the sale for \$65,000

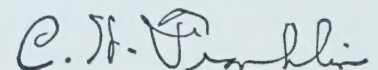
of Federal's long distance tractor-trailer fleet and also permitted the closing of certain costly regional warehousing and distribution facilities. Sale of the Company's local warehouse on Colville Road in Toronto realized gross proceeds of \$87,000 and consolidation of all Bradford processing facilities under one roof was followed by the sale for \$320,000 of the former snack food production building. Relocation costs of \$29,351 caused by these moves have been written off and the related real estate sales resulted in a gain of \$110,605, the amount by which proceeds exceeded the book value of assets sold.

Through purchase of the outstanding minority shares of Brad-Vac Cooling Limited, your Company now owns 100% of the only facility in Ontario capable of the quick cooling of freshly picked lettuce and other leafy vegetables in a vacuum process which insures superior quality and shelf life to the ultimate consumer.

Note 7 to the Consolidated Financial Statements details amounts available for future tax saving or tax deferment in the total sum of \$1,278,329.

Appreciation is extended by your Directors to all those whose assistance and co-operation have contributed to the betterment in operating results and advancement of outlook for your Company.

Respectfully submitted on behalf of the Board,



August 14, 1972

Chairman

FEDERAL DIVERSIPLEX LIMITED

and subsidiary companies

CONSOLIDATED STATEMENT OF EARNINGS

for the year ended April 1, 1972

	1972	1971
Sales - - - - -	\$6,608,100	\$5,171,134
Cost of sales and other expenses - - - - -	6,722,129	5,376,447
	(114,029)	(205,313)
Investment income - - - - -	21,017	14,338
	(93,012)	(190,975)
Depreciation - - - - -	132,981	119,924
Amortization of debenture discount - - - - -	1,000	1,000
Interest on long-term debt - - - - -	25,559	10,313
	159,540	131,237
Loss before the undernoted - - - - -	252,552	322,212
Gain on disposal of fixed assets - - - - -	110,605	
	141,947	322,212
Income taxes - - - - -		5,267
	141,947	327,479
Minority interest - - - - -		4,875
Net loss for the year - - - - -	\$ 141,947	\$ 332,354
Net loss per share - - - - -	16¢	37¢

CONSOLIDATED STATEMENT OF DEFICIT

for the year ended April 1, 1972

	1972	1971
Deficit (retained earnings), beginning of year - - - - -	\$ 237,577	\$ (89,634)
Net loss for the year - - - - -	141,947	332,354
	379,524	242,720
Transfer from appraisal excess - - - - -	(4,987)	(5,143)
Deficit, end of year - - - - -	\$ 374,537	\$ 237,577

(See accompanying notes to consolidated financial statements)

FEDERAL DIVERSIPLEX LIMITED

(Incorporated under the laws of Canada)

and subsidiary companies

CONSOLIDATED BALANCE SHEET AS AT APRIL 1, 1972

ASSETS

	1972	1971
CURRENT		
Cash - - - - -	\$ 88,013	\$ 24,372
Accounts receivable - - - - -	922,715	427,134
Inventories (note 3) - - - - -	422,789	413,618
Current portion of debentures and mortgages receivable (note 4) - -	47,849	20,000
Prepaid expenses - - - - -	69,786	51,938
	<u>1,551,152</u>	<u>937,062</u>
DEBENTURES AND MORTGAGES RECEIVABLE LESS CURRENT PORTION (note 4) - - - - -	<u>409,259</u>	<u>160,200</u>
FIXED ASSETS (note 5) - - - - -	<u>2,325,382</u>	<u>2,318,126</u>
OTHER		
Sundry deposits - - - - -		6,076
Debenture discount, less amortization - - - - -	4,208	5,208
	<u>4,208</u>	<u>11,284</u>
On behalf of the Board :		
C. H. FRANKLIN, <i>Director</i>		
GHENT L. DAVIS, <i>Director</i>		
	<u>\$4,290,001</u>	<u>\$3,426,672</u>

(See accompanying notes to consolidated financial statements)

AUDITORS' REPORT

To the Shareholders of Federal Diversiplex Limited:

We have examined the consolidated balance sheet of Federal Diversiplex Limited and its subsidiaries as at April 1, 1972 and the consolidated statements of earnings, deficit and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

LIABILITIES

	1972	1971
CURRENT		
Bank advances (note 6) - - - - -	\$ 685,000	\$ 520,000
Accounts payable and accrued liabilities - - - - -	801,479	354,105
	<u>1,486,479</u>	<u>874,105</u>
LONG-TERM DEBT (note 6) - - - - -	558,800	133,300
MINORITY INTEREST IN SUBSIDIARIES - - - - -		<u>20,322</u>

SHAREHOLDERS' EQUITY

CAPITAL STOCK		
Authorized—1,500,000 common shares without par value		
Issued — 891,380 common shares - - - - -	1,830,113	1,830,113
EXCESS OF BOOK VALUE OF SHARES OF SUBSIDIARY OVER PURCHASE PRICE THEREOF AT DATE OF ACQUISITION - - - - -		12,276
EXCESS OF APPRAISED VALUE OF FIXED ASSETS OVER DEPRECIATED COST - - - - -	789,146	794,133
DEFICIT - - - - -	(374,537)	(237,577)
	<u>2,244,722</u>	<u>2,398,945</u>
	<u>\$4,290,001</u>	<u>\$3,426,672</u>

(See accompanying notes to consolidated financial statements)

In our opinion these consolidated financial statements present fairly the financial position of the companies as at April 1, 1972 and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The consolidated financial statements for the previous year were examined by other Chartered Accountants.

Toronto, Canada,
May 18, 1972.

CLARKSON, GORDON & CO.
Chartered Accountants

FEDERAL DIVERSIPLEX LIMITED

and subsidiary companies

CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

for the year ended April 1, 1972

	<u>1972</u>	<u>1971</u>
FUNDS WERE OBTAINED FROM		
Calvert-Dale Estates Limited debentures - - - - -	\$ 46,113	\$ 20,000
Mortgages receivable - - - - -	42,248	
Bank loan - - - - -	470,000	
Sales of fixed assets (less first mortgage assumed by purchaser of \$44,500 and mortgages received on sale of \$328,420) - - -	63,917	
Other - - - - -	5,803	4,709
	<u>628,081</u>	<u>24,709</u>
FUNDS WERE USED FOR		
Net loss for the year - - - - -	141,947	332,354
Add gain on sale of fixed assets - - - - -	110,605	
	<u>252,552</u>	<u>332,354</u>
Deduct depreciation and other items not requiring an outlay of funds - - - - -	134,205	153,086
	<u>118,347</u>	<u>179,268</u>
Acquisition of wholly-owned subsidiary (less working capital acquired of \$63,275) - - - - -	406,313	
Acquisition of minority interest in subsidiary - - - - -	26,000	83,351
Retirement of long-term debt - - - - -		4,067
Purchase of fixed assets - - - - -	75,705	179,680
	<u>626,365</u>	<u>446,366</u>
INCREASE (DECREASE) IN WORKING CAPITAL - - - - -	1,716	(421,657)
WORKING CAPITAL, BEGINNING OF YEAR - - - - -	62,957	484,614
WORKING CAPITAL, END OF YEAR - - - - -	<u>\$ 64,673</u>	<u>\$ 62,957</u>

(See accompanying notes to consolidated financial statements)

FEDERAL DIVERSIPLEX LIMITED

and subsidiary companies

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended April 1, 1972

1. BASIS OF CONSOLIDATION

The consolidated financial statements include all the subsidiaries of the company. On November 1, 1971, the company acquired all of the outstanding shares of Valley View Dairies Limited ; accordingly, the results of its operations have been included in earnings since that date.

2. ACQUISITION AND ACCOUNTING TREATMENT

The following net assets were acquired in the acquisition of Valley View Dairies Limited which was accounted for as a purchase :

Assets at book value	- - - - -	\$ 984,744
Less liabilities at book value	- - - - -	<u>528,813</u>
		455,931
Increase from book value to fair value of assets	- - - - -	<u>13,657</u>
Cash paid	- - - - -	<u>\$ 469,588</u>

3. INVENTORIES—AT THE LOWER OF COST AND REPLACEMENT COST

	1972	1971
Foodstuffs - - - - -	\$ 176,917	\$ 143,016
Packaging materials - - - - -	173,915	120,827
Finished goods - - - - -	51,270	117,560
Seed and fertilizer - - - - -	20,687	32,215
	<u>\$ 422,789</u>	<u>\$ 413,618</u>

4. DEBENTURES AND MORTGAGES RECEIVABLE—AT COST

	1972			1971
	Current	Long-term	Total	Total
Calvert-Dale Estates Limited, 7¼% convertible sinking fund debenture, due December 15, 1976 - - - - -	\$ 20,000	\$ 114,087	\$ 134,087	\$ 180,200
8½% mortgage, due January 1, 1980, principal and interest of \$3,000 payable monthly - - - - -	14,729	251,772	266,501	
8% chattel mortgage, due January 15, 1976, principal of \$1,000, plus interest, payable monthly - - - - -	12,720	35,000	47,720	
Other - - - - -	400	8,400	8,800	
	<u>\$ 47,849</u>	<u>\$ 409,259</u>	<u>\$ 457,108</u>	<u>\$ 180,200</u>

5. FIXED ASSETS

	At cost	At appraised value	Accumulated depreciation	Net book value	
				1972	1971
Buildings - - - - -	\$ 416,760	\$ 557,962	\$ 314,367	\$ 660,355	\$ 890,976
Machinery and equipment -	2,312,862		1,751,717	561,145	411,331
Vehicles - - - - -	831,331		642,259	189,072	129,498
Land and improvements -	110,440	804,370		914,810	886,321
	<u>\$3,671,393</u>	<u>\$1,362,332</u>	<u>\$2,708,343</u>	<u>\$2,325,382</u>	<u>\$2,318,126</u>

Farm land and improvements were appraised at market on May 9, 1961 by Mr. Norman Porter, a licenced appraiser. Buildings, staff dwellings and the land on which they are located were appraised at replacement cost on May 18, 1961 by Geo. A. Lister & Co., a licenced appraiser.

6. LONG-TERM DEBT

8% demand bank loan, \$94,000 payable annually, beginning May 1, 1973 -		\$ 470,000
7% convertible sinking fund debentures, Series A, due June 15, 1976, instalments payable as follows:		
June 15, 1973 - - - - -	\$ 18,800	
June 15, 1974 - - - - -	23,000	
June 15, 1975 - - - - -	23,000	
June 15, 1976 - - - - -	24,000	
	<u>\$ 88,800</u>	88,800
		<u>\$ 558,800</u>

The 8% bank loan of \$470,000 and the bank advances of \$685,000 are secured by the inventories, accounts receivable and debentures and mortgages receivable.

The 7% convertible sinking fund debentures are convertible into common shares of the company at \$7.56 per share and are secured by a floating charge on the assets of the company.

7. FUTURE INCOME TAXES

Losses available for tax purposes expiring—		
1973 - - - - -	\$ 24,671	
1974 - - - - -	16,334	
1975 - - - - -	185,597	
1976 - - - - -	253,037	
1977 - - - - -	<u>172,125</u>	\$ 651,764
Excess of depreciation recorded in the accounts over capital cost allowance claimed for tax purposes - - - - -		240,605
		<u>892,369</u>

The tax effects of the above have not been reflected in the accounts.

In addition future income tax payments could be deferred by refiling tax returns and claiming additional capital cost allowance in the amount of approximately	385,960
	<u>\$1,278,329</u>

8. REMUNERATION OF DIRECTORS AND OFFICERS

In accordance with the requirements of Section 120B of The Canada Corporations Act the following information is reported :

	Number	Remuneration
Directors:		
At year-end - - - - -	5	\$ 1,550
Others during the year - - - - -	5	400
	<u>10</u>	<u>\$ 1,950</u>
Officers:		
At year-end - - - - -	6	\$ 55,370
Others during the year - - - - -	6	25,075
	<u>12</u>	<u>\$ 80,445</u>
The number of directors who are also officers:		
At year-end - - - - -	3	
Others during the year - - - - -	3	

